

Developing Your Spending Plan

Module Description

A sixty minute interactive program suitable for all audiences, designed to develop knowledge and skills that will enable participants to establish a personal spending plan that can be adapted to suit individual's unique circumstances.

Materials

Financial Planning Pyramid

Financial Planning Worksheet

Monthly Spending Record

Creative Saving Strategies

Sources of Help for Military Consumers

Your Goals

Note

Instructor should be prepared to provide local numbers for the appropriate sources of help.

Relevant Websites:
www.dfas.gov
(Military Pay Tables)
www.lifelines4qol.org

Instructor References

SECNAVINST 1754.1, Family Service Center Program

OPNAV Instruction 1740.5A (Draft), Personal Financial Management Education, Training and Counseling Program

Command Financial Specialist Training Manual, NAVPERS 1560.8C (or later)

Garman/Forge, Personal Finance. Boston, MA: Houghton Mifflin Company, 1994

“Financial Planning,” Money Management Institute

Objectives

At the conclusion of this program participants will be able to:

- ◆ Identify the four critical areas of a financial plan.
- ◆ Explain the ideal breakdown for total net income.
- ◆ List three ways to improve any financial plan.
- ◆ Develop short and long - term financial goals.
- ◆ List sources of help for four critical areas of a financial plan.

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Introduction

1. Introduce Self:

Financial education background, affiliation with Navy.

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Purpose and Agenda

1. State Purpose:

The purpose of this program is to help you develop an on-going financial plan based on individual goals, needs and desires that can be used as a positive tool to support a quality lifestyle in the military. Specifically, we will cover:

- ◆ Comparing a financial plan to a business plan
- ◆ Developing a financial plan
- ◆ Using the Financial Planning Worksheet
- ◆ Setting goals
- ◆ Financial planning purpose

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2. Motivating Statements:

I am not here to tell you what to do with your money. I'm here to challenge you to think before you spend. There is no patent on the "right" way to budget your money, but there are better ways to get your dollar's worth. The most effective way to get your dollar's worth is to ensure that you have a written plan referred to as a budget or for the purposes of this training a "Financial Plan". Bottom Line - What is the purpose of a spending plan? The primary purpose is to maximize your financial resources and develop a savings plan to make it possible for you to accomplish the things you want financially in life. Your financial plan is a simple tool for the business-like management of your household finances.

Financial Plan Compared to Business Plan

1. How many here would like to have your own business?

Everyone here already has their own business. It is the business of managing your own personal finances. Your assets are those things you own and your liabilities are what you owe, debt payments, loans, etc. The goal of financial planning is to have a positive net worth. This happens when your assets are greater than your liabilities. Do you have a positive net worth at the moment? Are you losing money or making a profit? Certain elements are required to set up a business. How does managing your personal family financial resources relate to managing your own business?

NOTE:

Instructor should allow answers from the class to these questions.

Developing a Financial Plan

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1. The first element a successful business must have is a plan. It is important that you have a plan for your personal finances as well. A plan is a Guide and Servant - not a Master.

A good plan is:

- ◆ *A Guide* - It doesn't need to be down to the penny. It needs to be easy to understand and require a minimum amount of effort and time.
- ◆ *Personal and Unique* - It is a reflection of your needs and wants, your values and your goals.
- ◆ *Practical and Realistic* - It is based on current income and expense. It allows for future possibilities and probabilities.
- ◆ *Flexible* - Changes when you change and when things around you change.
- ◆ *Pleasures and Necessities* - A good plan provides for pleasures as well as the necessities.

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How does it help? Planning is effective because planners think before spending. A plan will help you:

- ◆ Live within your income
- ◆ Realize personal goals
- ◆ Maintain a good credit history
- ◆ Get more for your money
- ◆ Reduce financial stress and arguments
- ◆ Achieve competence and confidence

2. The Financial Planning Pyramid:

The financial planning pyramid gives us a visual picture of the steps involved in successful management of personal finances and helps explain the relationship among the tiers. The most basic elements of the pyramid are in Level 1.

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Handout:
Financial Planning Pyramid

- a. Level 1– Management
 1. Adequate Income
 2. Controlled Spending
 3. Insurance
- b. Level 2– Savings
 1. Reserve Fund
 2. Emergency Fund
 3. Goal Getter Fund.

It is difficult to build a healthy structure without the foundation and today's class will focus on both levels. The top of the pyramid is the Investment level. This tier is beyond the scope of today's presentation, but you may want to learn more about building your financial security by reviewing the Savings and Investments module.

3. Four Critical Areas: The four critical areas of the budget portion of the financial planning worksheet (FPW) are income, living expenses, indebtedness, and savings.

- a. Income - (Management–Level 1 of Pyramid) all of you are providing services for the Navy, so look at yourself as a subcontractor. A business has cash flow.
Your pay and allowances = income.
- b. Family/Personal Living Expenses - (Controlled Spending, Management–Level 1) - daily operating expenses are needed to operate a business. You also have basic day-to-day expenses to maintain your standard of living.
- c. Indebtedness - (Management–Level 1) Bills for goods and services provided to your business. This represents credit you have used to purchase items.
- d. Savings - (Savings–Level 2 of Pyramid) Where do they fit in? You have undoubtedly heard the saying before “PAY YOURSELF FIRST!” That is exactly where savings fits in. Once you have adequate income, a budget in place, controlled spending, and insurance you are ready to move up the pyramid and save. There are three types of savings funds, a reserve fund, an emergency fund and a goal-getter fund.

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4. Net income breakdown: The ideal breakdown for your total net income is 70/20/10.

- ◆ 70% for Family/Personal Living Expenses.
- ◆ 20% for Indebtedness.
- ◆ 10% for Savings.

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This is an excellent guideline. The percentages may vary in different households based on our different lifestyles, but should strive for these levels.

NOTE:

Instructor should refer students to the Financial Planning Worksheet for this section.

Handout:

Financial Planning Worksheet

Develop a Personal Financial Plan using the Financial Planning Worksheet

1. A Financial Plan has 4 distinct parts:

- ◆ Net Worth Statement to show your assets and liabilities - Pg. 1
- ◆ Budget consisting of income and outgoing monthly expenses - Pg. 2-4
- ◆ Goals page - Pg. 5
- ◆ Spending Plan - Pg. 6

In this class we will review the form so you'll understand it, but we will not have the time to complete each entry. You may want to visit your Command Financial Specialist or Financial Educators at NFSC for individual assistance with your spending plan.

2. The Financial Planning Worksheet Pages 1-6

Page 1 - Background and Net Worth. You may be surprised at what you've accumulated financially. This page shows your net worth, which is your assets minus your liabilities.

Page 2 – Income. This information comes directly from your LES.

- ◆ **Entitlements** - Copy all pay and allowances that you are entitled to from your Leave and Earnings Statement (LES) or use a current pay chart to calculate your gross pay. Remember that this figure could be different from your taxable pay. All items taxable will have an * next to it in the entitlements section.

- ◆ **Deductions** - List all allotments, SGLI, taxes, advance pay, or overpayments, and Armed Forces Retirement Home in this section. Subtracting your total deductions (B) from your gross pay (A) to calculate Servicemember's Take Home Pay. Take Home Pay should be the amount on your Direct Deposit Slip.
- ◆ **Total Net Monthly Income** - It is important that individuals know what their family's total net monthly income is. With all the automatic deductions that most service members have, it is difficult to keep track of the actual money one has control of. To calculate your total net monthly income, all deductions that were made in the deductions section need to be added back (except taxes and Navy home assessment) plus any additional income that is coming into the family (i.e., part-time job, spouse's income, or child support.)

Page 3 – Savings. Savings are broken down into three areas. Most Financial Advisors suggest one should save a total of 5-10% of their net income. The average American saves only about 2-3 percent however the average millionaire saves 10%. Which category do you want to be in?

Savings Level 2 of the pyramid is broken down into three funds called the Reserve Fund, the Emergency Fund and the Goal Getter Fund. It is not necessary to have three separate accounts, but some people do to help discipline their efforts.

- ◆ **Reserve Fund** - This is money set aside for those items you know are expected expenses such as vacations, holidays, and insurance.
- ◆ **Emergency Fund** - This money is set aside for the unexpected, breakdowns, sickness, repairs, and disasters. Planners often suggest that 1-3 months of net pay should be set aside for this fund.

NOTE:

Based on student interest, instructor can refer class to the Saving & Investment Module for further information on savings plans and the benefits of compounding interest

- ◆ Goal-Getter Fund – This money is for items you set as goals such as a diamond ring, new vehicle, or new home.

Page 3 – Family/Personal Living Expenses. The Navy guideline encourages servicemembers to spend no more than 70 percent of net pay on living expenses; however, this is just a guideline not a set rule. Obviously a single sailor will have lower living expenses than a married sailor with children. The guideline is just that, a guide to assist you in balancing your budget.

There are many line items to help you look closely at how you spend money on page 3. Living expenses can easily take up the majority of your income. If you track expenses through recordkeeping and curtail spending, up to 10% of your income may be recovered.

How much do you spend weekly \$25, \$50, \$100?

Where is the majority of your money spent? Usually its on impulse items like soda, beer, eating out, and entertainment? If you track these expenses for a month the majority of you will be shocked and change your spending habits. By recording how you spend your money on this page, you can decide if you want to continue the patterns you've developed or change your spending behavior.

Handout:
Monthly Spending Record

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1. Recordkeeping will help you increase your profit. The only way to address that is to list every cent you spend daily. This can be difficult, but it is easier if you make it a part of your daily routine. You can make it a part of your daily routine by keeping a record for 30 days of everything you spend each day.

2. Utilize this handout by recording your expenses daily. You can stick a post-it note in your wallet if that makes it easier for you to remember to use. Be sure to identify the purpose of each expenditure. At the end of the month, total each category. Now you have the information you need to determine if you are spending your money the way you really want. Who is in control here? You can take charge of the \$20 bills that fly out of your wallet by knowing where they go and then deciding if that type of expense is really important to you. One soda per day = \$.50, one per day per month = \$10, and per year = \$120.

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3. Benefits of using a Monthly Spending Record:

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- ◆ Provides a record of daily expenses
- ◆ Identifies expenditure purpose
- ◆ Total monthly expenses for each category
- ◆ Provides figures to establish a realistic financial plan
- ◆ Allows for adjustments

Page 4 – Indebtedness. This section allows you to list all of your outstanding debt: money owed for goods and services.

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Calculate your debt-to-income ratio as a means of measuring whether or not additional credit is affordable. First determine your net monthly income, this is everything you make in one month minus only what is being withheld for taxes. Then total all monthly payments, do not include mortgage payments. Complete this page by dividing the minimum monthly payments by the total net monthly income to come up with a ratio. Look at the example at the bottom of your Financial Planning Worksheet. Minimum payments divided by net income multiplied by 100 to equal your ratio.

NOTE:

Instructor can refer students to the Credit Management Module for further information.

Handout:

Creative Saving Strategies

Here are some proposed guidelines:

- ◆ Less than 15% - *use caution*
- ◆ 15% - 20% - *fully extended*
- ◆ 21% - 30% - *overextended*
- ◆ Greater than 30% - *seek help*

Today credit has evolved from a luxury to a necessity. It all depends on how you use it. Credit cards are often used for wants rather than emergencies or planned needs. This along with impulse spending gets many people in the overextended debt range. Poorly managed credit will lead to serious indebtedness. For further information on use of credit, review the Credit Management module.

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Page 5 - Options Sheet. There are three ways that you can create a more positive cash flow in your financial plan. You want to consider each option and then do some brainstorming to determine ways that might work best. Your options must fit your needs and lifestyles. Let's take a look at the three areas.

- ◆ **“Decreasing Living Expenses”** - review each category of monthly living expenses to determine how you can cut back.
- ◆ **“Increasing Income”** - You can do this by seeking a second job or encouraging your spouse to seek employment and reviewing your tax filing status and special credits or exemptions you may be entitled to take. Check with your Volunteer Income Tax Assistant for information at your command. You may be able to increase your exemptions each month, which will add income to your monthly take home pay to be used for savings and/or reducing debt. You should also seek pay and budget assistance from your Command Financial Specialist. In addition, you may want to visit PSD for further detail on pay and deductions.

- ♦ **“Decreasing Indebtedness”** - Cut credit card usage, shop for the lowest interest rates and be a savvy shopper. If serious debt exists see a Financial Educator or Command Financial Specialist, or see a debt-management counselor.

Page 6 - Spending Plan. This is where your plan comes together. All of the details you have worked out can be put together on one page. Your take home pay is reflected at the top. Put only what is deposited into your account each pay day and then note all other expenses as indicated. Remember, if you have allotments coming out of your salary do not include them again on the Spending Plan.

Note the (P) for PROJECTED, will list your projected expenses or your most educated guess at what your expenses will be. The (A) will be the ACTUAL amount you spent or paid for the items. This is a wonderful tool for planning and changes. A budget is a working document that is always under change and this provides a workable snapshot to use with ease.

The Spending Plan also allows a forecast of four months so you do not forget those quarterly payments for insurance, dues, or whatever the expense may be. When preparing this plan, don't forget to include seasonal and special expenses. These include: Christmas, birthdays, anniversaries...

It is a great tool to monitor your progress each month to make sure that you are following your plan. Reward yourself for following the plan when you do better than you have estimated. For example the electric bill was \$75 this month rather than \$100 so take the \$25 and put it where you will see the money grow to reach goals.

NOTE:

*Instructor should provide
local phone numbers
and names if possible.*

Handout:

Sources of Help

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3. Sources of Help: Don't think of over-indebtedness as an impossible situation. A business would bring in a consultant if it started to run into financial problems. Don't bury your head in the sand. Get help from a consultant if you feel your money is controlling you instead of you controlling your money. There are several sources of help:

- ◆ Your Command Financial Specialist
- ◆ Navy Family Service Centers Financial Educators
- ◆ Navy Relief Budget Counselors
- ◆ Debt Management Programs at Credit Unions
- ◆ Consumer Credit Counseling Services (Non-Profits)

Goal Setting

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1.The importance of goals: We have talked about the importance of developing a financial plan, and how to actually put one together. All of this is in vain if you don't have a clear purpose for why you are doing it. Successful people take control of their money and plan its use. This is why it is so important to commit in writing what your financial goals are. Take a few minutes and write down one financial goal that you would like to achieve before you leave this class. The key is now in your hands.

Handout:

Your Goals

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2. Steps to goal setting: Decide what you want to accomplish. Write it down! To get where you want to go, take a look at where you are now, then make plans for achieving your goals and most importantly, follow your plan.

- ◆ Set start date and deadline
- ◆ Identify obstacles
- ◆ Identify sources of help
- ◆ Identify skills needed

- ◆ Prepare plan of action
- ◆ List benefits
- ◆ Re-evaluate as changes in life occur (marriage, children, relocation, etc.)

To make your goals effective they must be specific and measurable as well as having clear start and end dates. This will help make them real to you because you can clearly see when you will get there. Your goals will likely change over the years and that's OK, just adapt your plan to meet these changes.

3. Short and Long term goals: Short term goals are those that can be reached in a few weeks or months, less than one year. Long term goals take longer and usually cost more. These take a more concentrated commitment to your entire financial plan. To reach any goal you will always need to save something. Pay yourself first, even \$5 per paycheck becomes \$600 in a year.

Summary

1. Finances and family: If you are married or sharing financial responsibilities with someone else, remember to include them in the planning process. Partners in relationships may have very different spending and saving styles. Conflict over money is a frequent cause of marital problems. Avoid conflict by communicating earlier on and work out compromises as necessary. In order for your plan to work, everyone in the family who spends money needs to follow it, so include them all in planning too.

2. Purpose of a financial plan: Please take these valuable financial planning tools home with you and complete them, using the actual figures for your specific situation. The purpose of the financial plan is for you to determine where you are now, where you want to go, and how you plan to get there by starting TODAY!

Note: The instructor should include the following slide and review questions as a summary. Allow student participation for responses. This section may be omitted if time requires, but it is strongly encouraged not to do so.

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2. Review Questions:

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- ◆ Name the four critical areas of the Financial Planning Worksheet?
Income, Expenses, Indebtedness, Savings
- ◆ What are three ways any budget can be improved?
Decrease expenses, Decrease indebtedness, Increase income
- ◆ Name a source of help for indebtedness?
Any of these: Your Command Financial Specialist, Navy Family Service Centers Financial Educators, Navy Relief Budget Counselors, Debt Management Programs at Credit Unions, Consumer Credit Counseling Services
- ◆ Name a type of initial savings fund?
Emergency fund, Reserve fund, Goal-getters fund
- ◆ Name a source to assist with this budget plan?
The Command Financial Specialist, Navy Family Service Centers Financial Educators, Navy Relief Budget Counselors
- ◆ What is the ratio breakdown for net income?
70- Living Expenses, 20- Indebtedness, 10- Savings
- ◆ What is one goal you will achieve after this class?
Responses will vary